

Message Text

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ACTION EA-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
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FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 2329
INFO AMEMBASSY TOKYO
AMEMBASSY TAIPEI
AMCONSUL HONG KONG
AMEMBASSY GENEVA

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E.O. 11652: N/A
TAGS: ECON, EFIN, ETRD
SUBJECT: PRICES CONTINUE PRINCIPAL ECONOMIC PROBLEM (PART II)

REF: SEOUL 6192

1. KOREA'S ECONOMY AT MID-YEAR PRESENTS A MIXED PICTURE.
IT IS UNDOUBTEDLY BOOMING, FUELED AS MUCH BY DOMESTIC
DEMAND AS OVERSEAS DEMAND FOR EXPORTS. IN ADDITION TO
THE CONSTRUCTION SECTOR, CONSUMER DEMAND HAS RISEN TO
UNPRECEDENTED HEIGHTS: HOME APPLIANCE SALES ARE AT RECORD
LEVELS WITH SALES OF REFRIGERATORS DURING THE FIRST HALF
UP 273 PERCENT, WASHING MACHINES 226 PERCENT, AS WELL AS
ELECTRIC FANS, TV SETS, ETC., SHOWING ABOVE-AVERAGE GAINS.

2. IN ADDITION TO PUTTING PRESSURES ON PRICES, THE DOMESTIC
BOOM IS BEGINNING TO BITE INTO EXPORT PERFORMANCE. AS A
RESULT OF THE CONSTRUCTION BOOM EXPORTS OF CEMENT, STEEL
BARS, PLYWOOD, ETC., HAVE EITHER BEEN BANNED OR PLUMMETED.

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EXPORTS OF ELECTRICAL APPLIANCES HAVE SHOWN LESS THAN
AVERAGE GROWTH (ONLY 14.8 PERCENT IN THE FIRST HALF)
MUCH TO THE CHAGRIN OF GOVERNMENT OFFICIALS. THE MINISTRY
OF COMMERCE AND INDUSTRY IS REPORTED PREPARED TO BAN THE
IMPORTS OF ELECTRONIC COMPONENTS FOR PRODUCTS FOR
DOMESTIC MARKET TO "PUNISH" INDUSTRIES INCLUDING IN
DOMESTIC SALES FOR "PROFITS" RATHER THAN EXPORTS.

3. IF TRUE, THIS POINTS TO PART OF THE OFFICIAL MENTALITY WHICH IS AFFECTING THE ECONOMIC PERFORMANCE. THE PRESENT DOMESTIC BOOM, FUELED BY THE 40 PERCENT INCREASE IN THE MONEY SUPPLY IN 1977, CAME AS A SURPRISE AND SHOCK TO MANY IN AUTHORITY. IT APPEARS THERE HAS BEEN A BREAK-DOWN IN COORDINATION AND DIRECTION OF THE ECONOMY WITH MANY MINISTRIES NOW PURSUING THEIR OWN NARROW INTERESTS. IN ORDER TO INCREASE INCOME THE MINISTRY OF AGRICULTURE HAS FOUGHT IMPORTS OF AGRICULTURAL COMMODITIES TOOTH AND NAIL, GOING SO FAR, ACCORDING TO SOME SOURCES, AS TO SABOTAGE DISTRIBUTION OF ITEMS IMPORTED. THE CONSTRUCTION AND HOME AFFAIRS MINISTERS EARLY IN THE YEAR PUSHED HARD CONSTRUCTION, BOTH URBAN AND RURAL. SUDDENLY, IN APRIL IT WAS DISCOVERED THE COUNTRY WAS RUNNING OUT OF CEMENT. AS A CONSEQUENCE, IMPORTS OF CEMENT FROM JAPAN AND TAIWAN AT \$46 A TON BECAME NECESSARY ALTHOUGH 600,000 TONS OF CEMENT HAD BEEN EXPORTED EARLY IN THE YEAR AT A PRICE OF 30-33 DOLLARS A TON. SIMILAR EXAMPLES OF OTHER CONSTRUCTION MATERIALS HAVE BEEN REPORTED IN THE PRESS.

4. THE RESULT OF ALL THIS, IN ADDITION TO HIGHER PRICES, HAS BEEN AN ERODING IN CONFIDENCE OF THE GOVERNMENT'S ECONOMIC POLICY. IN RETROSPECT, THE SETTING OF A 10 PERCENT LIMIT ON PRICE RISES WAS A BLUNDER. ONCE THIS LIMITED OFFICIAL USE

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FIGURE WAS PASSED THE WHOLE OF THE GOVERNMENT'S PRICE POLICY WAS CALLED INTO QUESTION. AT THE SAME TIME ADDITIONAL CONSTRAINTS HAVE BEEN PLACED ON NEEDED PRICE INCREASES IN ELECTRICAL POWER CHARGES, COAL PRICES AND SOME MANUFACTURED ITEMS WHICH ARE BEING PLACED IN A COST-PUSH SQUEEZE AS A RESULT OF HIGHER WAGES AND INCREASED IMPORT PRICES FOR JAPANESE MATERIALS. GOVERNMENT EFFORTS TO COOL THE REAL ESTATE BOOM BY RESTRICTIVE MEASURES HAS SLOWED CONSTRUCTION, BUT ONLY INCREASED DEMAND WITH PROSPECTIVE BUYERS REPORTEDLY "OUTSTRIPPING SELLERS BY A LARGE MARGIN".

5. PART OF THE PROBLEM IS THE FACT THAT KOREA'S ECONOMY IN 1978 IS NOT THAT OF 1968; AND DEMAND MANAGEMENT AND ECONOMIC ADMINISTRATION HAS BECOME AN INFINITELY MORE COMPLICATED PROCESS. RISING INCOMES AND EXPECTATIONS REQUIRE THAT MORE ATTENTION BE GIVEN TO DOMESTIC CONSIDERATIONS. THE WHOLE REAL ESTATE SPECULATIVE PROCESS IS BASED ON THE FACT THAT THIS COUNTRY SUFFERS FROM AN ESTIMATED 20-25 PERCENT HOUSING SHORTAGE NATIONWIDE WITH URBAN SHORTAGES AT 40-45 PERCENT. MORAL EXHORTATIONS

TO WORK AND SAVE FOR THE FUTURE ARE BEGINNING TO WEAR
THIN AND THE PRESENT INFLATION IS ACCELERATING THE PROCESS.
THE NEXT SIX TO NINE MONTHS WILL BE CRUCIAL FOR THE
ECONOMY'S FUTURE AS THE GOVERNMENT SEEKS TO RESTORE
CONFIDENCE IN ITS POLICIES AND GOALS.
GLEYSTEN

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